

RICE COUNTY RURAL WATER DISTRICT #1

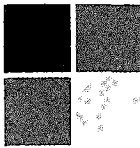
Financial Statements With Independent Auditors' Report

For the Years Ended December 31, 2014 and 2013

RICE COUNTY RURAL WATER DISTRICT #1
Financial Statements With Independent Auditors' Report
December 31, 2014 and 2013

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Balance Sheets	6
Statements of Revenues, Expenses and Change in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rice County Rural Water District #1
Little River, Kansas

We have audited the accompanying financial statements of the business-type activities of **Rice County Rural Water District #1**, as of and for the year ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of **Rice County Rural Water District #1**, as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Adams, Brown, Beran & Ball, Chartered

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

October 12, 2015

RICE COUNTY RURAL WATER DISTRICT #1
Management's Discussion and Analysis
December 31, 2014 and 2013

The discussion and analysis of Rice County Rural Water District #1's financial performance provides an overview of the District's financial activities for the years ended December 31, 2014 and 2013. Please read in conjunction with the District's financial statements which begin after this section.

Reporting of the District

Our analysis of the District begins on page 6. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The balance sheet and statement of revenues, expenses and change in net position report information about the District's activities that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net position and changes in it. The District's net position; the difference between assets and liabilities, is a way to measure the District's financial health and financial position. Increases and decreases in the District's net position are one indicator of whether financial health is improving or deteriorating.

FINANCIAL STATUS AND HIGHLIGHTS

Current Year Results

Operating revenues increased in 2014 as compared to 2013, which is attributed to an increase in water rates. The cost of water also increased proportionately to the increase in water revenue. The increase in the operating expenses was smaller than the increase in operating revenues which led to a smaller net operating loss than 2013. Additionally, in 2014, the district experienced a significant increase in interest expense as compared to 2013.

Discussion of Basic Financial Statements

The District's only business type fund is the proprietary fund, which is shown in this report. The financial statements provide detailed information which shows how money flows in and out of this fund and the balance left available for spending. This information helps to determine whether or not more or fewer financial resources can be spent in the near future to finance the District's activities.

The balance sheets reflect assets owned and liabilities owed at December 31, 2014 and 2013. The difference between total assets and total liabilities is referred to as net position.

The statements of revenues, expenses and change in net position reflect operating revenues, operating and maintenance expenses, interest income, interest expense and all other changes to net position for the years ended December 31, 2014 and 2013.

The statements of cash flows reflect cash provided by or used in operating activities, capital and related financing activities, and investing activities for the years ended December 31, 2014 and 2013. The statements also disclose cash paid for interest at December 31, 2014 and 2013.

Other Financial Matters

The District's purpose is to provide water to the users in the water district. Expenses include debt service and operating expenses. The financial position at the end of the year, based upon the District's established purpose, was primarily as planned.

RICE COUNTY RURAL WATER DISTRICT #1
Management's Discussion and Analysis
December 31, 2014 and 2013

Debt Administration

At year end the Series C, 2012 revenue bonds had an outstanding amount of \$910,000 and \$965,000, respectively for 2014 and 2013. The debt is more fully described in Note 8 of the audited financial statements.

Capital Assets

At the end of 2014 and 2013, the District had \$2,048,796 and \$2,085,829, respectively, invested in capital assets net of depreciation.

Figure 1 – Capital Assets

	2014	2013
Distribution System	\$ 2,682,136	2,663,445
Water Tower	378,600	378,600
Building	69,369	69,369
Fence	8,565	8,565
Transportation and Field Equipment	70,716	57,832
Office Equipment and Furniture	23,237	23,237
Accumulated Depreciation	(1,183,827)	(1,115,219)
Net Capital Assets	\$ 2,048,796	2,085,829

Comparative Financial Reports

The following figures present abbreviated comparative information in the District's statements of net position at December 31, 2014 and 2013 and summaries of activities for the periods then ended.

Figure 2 – Balance Sheets

	2014	2013
Cash	\$ 348,802	331,775
Accounts Receivable	27,135	28,522
Inventory	2,486	2,088
Capital Assets – Net	2,048,796	2,085,829
Total Assets	\$ 2,427,219	2,448,214
Accounts Payable	\$ 18,275	15,916
Accrued Expenses	10,505	9,895
Current Portion of Liabilities	55,000	55,000
Noncurrent Portion of Liabilities	855,000	910,000
Total Liabilities	938,780	990,811
Net Position	1,488,439	1,457,403
Total Liabilities and Net Position	\$ 2,427,219	2,448,214

RICE COUNTY RURAL WATER DISTRICT #1
Management's Discussion and Analysis
December 31, 2014 and 2013

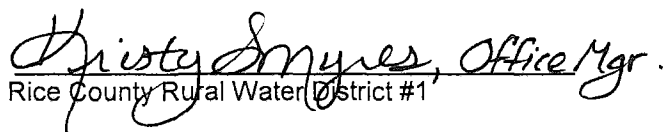
Figure 3 – Revenues, Expenses and Change in Net Position

	2014	2013
Operating Revenues	\$ 246,379	198,061
Operating Expenses	(353,612)	(317,553)
Net Operating Loss	(107,233)	(119,492)
Nonoperating Revenues (Expenses)		
Debt Reduction Fees	160,501	159,592
Interest Income	945	1,164
Bond Issue and Underwriter Fees	-	(147)
Interest Expense	(23,177)	(7,786)
Net Nonoperating Revenues	138,269	152,823
Change in Net Position	31,036	33,331
Net Position – Beginning of Year	1,457,403	1,424,072
Net Position – End of Year	\$ 1,488,439	1,457,403

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. The report is also designed to show the District's accountability for the money it receives.

Further questions concerning this report or the financial status of Rice County Rural Water District #1 should be directed to the District's chairman at PO Box 266, Little River, Kansas 67457.


Rice County Rural Water District #1

RICE COUNTY RURAL WATER DISTRICT #1

Balance Sheets

Proprietary Fund

December 31, 2014 and 2013

<u>ASSETS</u>		
	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 147,507	165,705
Restricted Cash	201,295	166,070
Accounts Receivable	27,135	28,522
Inventory	2,486	2,088
 Total Current Assets	<u>378,423</u>	<u>362,385</u>
Capital Assets		
Distribution System	2,682,136	2,663,445
Water Tower	378,600	378,600
Building	69,369	69,369
Fence	8,565	8,565
Transportation Equipment	27,590	23,271
Field Equipment	43,126	34,561
Office Equipment	13,045	13,045
Office Furniture	10,192	10,192
Accumulated Depreciation	(1,183,827)	(1,115,219)
 Capital Assets, Net of Depreciation	<u>2,048,796</u>	<u>2,085,829</u>
Total Assets	\$ <u>2,427,219</u>	<u>2,448,214</u>

The notes to the financial statements are an integral part of this statement.

RICE COUNTY RURAL WATER DISTRICT #1
Balance Sheets
Proprietary Fund
December 31, 2014 and 2013

<u>LIABILITIES AND NET POSITION</u>		
	<u>2014</u>	<u>2013</u>
Current Liabilities Payable From Current Assets		
Current Portion of Long-Term Debt	\$ 55,000	55,000
Credit Cards Payable	371	404
Accounts Payable	18,275	15,916
Payroll Taxes Payable	1,547	186
Sales Tax Payable	331	199
Water Protection and Clean Drinking		
Water Fees Payable	253	320
Feasibility Deposits	400	1,000
Accrued Interest Payable	7,603	7,786
Total Current Liabilities Payable From Current Assets	83,780	80,811
Noncurrent Liabilities		
Bonds Payable, Net of Current Portion	855,000	910,000
Total Liabilities	938,780	990,811
Net Position		
Invested in Capital Assets, Net of Related Debt	1,138,796	1,120,829
Restricted		
Bond Covenant	82,800	82,800
Unrestricted	266,843	253,774
Total Net Position	1,488,439	1,457,403
Total Liabilities and Net Position	\$ 2,427,219	2,448,214

The notes to the financial statements are an integral part of this statement.

RICE COUNTY RURAL WATER DISTRICT #1
Statements of Revenues, Expenses and Change in Net Position
Proprietary Fund
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Water Sales	\$ 182,110	163,060
Customer Water Line Setup Fees	51,302	23,635
Miscellaneous Income	8,797	7,393
Late Payment Fees	4,170	3,973
Total Operating Revenues	<u>246,379</u>	<u>198,061</u>
Operating Expenses		
Water and Electricity	117,397	104,371
Personnel	69,137	68,077
Depreciation	91,879	81,781
Other Operating Expenses	75,199	63,324
Total Operating Expenses	<u>353,612</u>	<u>317,553</u>
Net Operating Loss	<u>(107,233)</u>	<u>(119,492)</u>
Nonoperating Revenues (Expenses)		
Debt Reduction Fees	160,501	159,592
Interest Income	945	1,164
Bond Issue and Underwriter Fees	-	(147)
Interest Expense	(23,177)	(7,786)
Net Nonoperating Revenues (Expenses)	<u>138,269</u>	<u>152,823</u>
Change in Net Position	<u>31,036</u>	<u>33,331</u>
Net Position - Beginning of Year	<u>1,457,403</u>	<u>1,424,072</u>
Net Position - End of Year	<u>\$ 1,488,439</u>	<u>1,457,403</u>

The notes to the financial statements are an integral part of this statement.

RICE COUNTY RURAL WATER DISTRICT #1
Statements of Cash Flows
Proprietary Fund
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Cash Received From Customers	\$ 246,768	197,339
Cash Paid to Suppliers	(188,844)	(165,153)
Cash Paid to Employees	(69,137)	(68,077)
Restricted Cash Deposits	<u>(35,225)</u>	<u>65,567</u>
Net Cash Provided (Used) by Operating Activities	<u>(46,438)</u>	<u>29,676</u>
Cash Flows From Capital and Related Financing Activities		
Purchase and Construction of Capital Assets	(54,846)	(129,680)
Interest Paid	(23,360)	(23,770)
Principal Paid on Note Obligation	(55,000)	(55,000)
Bond Issue and Underwriter Fees	-	(147)
Debt Reduction Fees Collected	<u>160,501</u>	<u>159,592</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>27,295</u>	<u>(49,005)</u>
Cash Flows From Investing Activities		
Interest Received	<u>945</u>	<u>1,164</u>
Net Decrease in Cash	(18,198)	(18,165)
Cash - Beginning of Year	<u>165,705</u>	<u>183,870</u>
Cash - End of Year	\$ <u><u>147,507</u></u>	<u><u>165,705</u></u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Net Operating Loss	\$ (107,233)	(119,492)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	91,879	81,781
(Increase) Decrease in		
Restricted Cash	(35,225)	65,567
Accounts Receivable	1,387	(1,720)
Inventory	(398)	(2)
Increase (Decrease) in		
Credit Cards Payable	(33)	(42)
Accounts Payable	2,359	2,598
Accrued Liabilities	<u>826</u>	<u>986</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(46,438)</u></u>	<u><u>29,676</u></u>
Supplemental Disclosure		
Interest Paid	\$ 23,360	23,770

The notes to the financial statements are an integral part of this statement.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Rice County Rural Water District #1** is presented to assist in understanding the District's financial statements. The financial statements and notes to the financial statements are representations of the District's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Financial Reporting Entity

Rice County Rural Water District #1 (District), Little River, Kansas, is organized as a quasi-municipal corporation under the Kansas statutes K.S.A. 82a-612, for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District, and is not subject to federal or Kansas income tax. There are no component units or oversight units.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Basis of Accounting, Financial Statement Presentation, and Measurement Focus

For financial reporting purposes, the District is engaged only in business-type activities. Accordingly, the District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the District are included in the balance sheet. The statement of revenues, expenses and change in net position presents increases and decreases in total net position. Under the accrual basis of accounting revenues are recorded when earned, and expenses are recorded when a liability is incurred. Revenues are recognized as soon as they are both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected by the end of the year. Expenditures are recorded when the related liability is incurred, except for an un-matured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accounting records of the District are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The District applies all statements issued by the Government Accounting Standards Board (GASB). The District uses a single proprietary fund to account for and report its financial activities, which is limited to *business-type* activities – i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, which for the District is water distribution. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District had only one proprietary fund through December 31, 2014 and 2013.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2014 and 2013

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Budget

The District is not subject to the legal annual operating budget requirements, but is controlled by the use of an internal budget established by the governing body. As the District is not subject to these requirements, comparison to budget has been waived in the financial statements.

Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main bank or branch in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not use "peak periods". All deposits were legally secured at December 31, 2014 and 2013.

At December 31, 2014 and 2013 the District's carrying amount of deposits were \$348,802 and \$331,775, respectively and the bank balances were \$348,354 and \$327,866, respectively, the difference being outstanding checks and deposits. The bank balances at December 31, 2014 and 2013 were held by one bank. The bank balance in 2014 was insured by the FDIC limit of \$348,354. The bank balance in 2013 was insured by the FDIC limit of \$327,866.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2014 and 2013

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments at December 31, 2014 and 2013.

Inventory

Inventory is stated at cost on a first-in, first-out basis. Inventory consists of plumbing supplies and water to be sold to customers.

Restricted Assets

The construction/line extension account consists of amounts contributed by incoming patrons to cover the cost for water line extensions necessary to provide them service. The expense of construction is then paid from this account as necessary. The balance fluctuates according to the size and number of projects in existence at any given time. The construction account balances were \$74,291 and \$41,868 at December 31, 2014 and 2013, respectively. The District has other cash restricted for the purpose of bond payments, which were \$126,236 and \$123,434 at December 31, 2014 and 2013, respectively. The District has other cash restricted for the purposes of Kansas unemployment payments, which was \$768 at December 31, 2014 and 2013. The total cash restricted by the District was \$201,295 and \$166,070 at December 31, 2014 and 2013, respectively.

Cash

For the purpose of the statements of cash flows, the District considers all unrestricted, highly liquid deposits with original maturities of twelve months or less as cash, which consists of the District's checking accounts, money market account and certificates of deposit.

Accounts Receivable

Accounts receivable are amounts due from customers. All water meters are master-read by the District's operator prior to the end of the fiscal year. The adjustments are reflected in the year end balances. There is no allowance for doubtful accounts used because the District deems all accounts receivable collectible.

Net Position

Net position is the difference between assets and liabilities. Net position invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations that are imposed on its use by legislation or external restrictions by creditors or grantors to indicate that its use is limited as stipulated by contract. The proceeds of certain bond issues, as well as certain other resources, are classified as restricted net position. All other net position is reported as unrestricted.

Operating Revenues

The District's rates are established by the Board of Directors. The District sells water to members at established rates.

NOTE 2 - CAPITAL ASSETS

The costs of additions to the distribution system, tower, and equipment are capitalized. Capital assets are recorded at cost.

Capital assets are defined by the District as assets or group of assets that have an estimated useful life in excess of three years and cost \$500 or more. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2014 and 2013

Depreciation expense is computed using the straight-line method based on service lives. Depreciation expense for the years ended December 31, 2014 and 2013 was \$91,879 and \$81,781, respectively. Estimated useful lives for equipment and lines are 5 to 50 years.

A summary of changes in fixed assets is as follows:

	Balance 12/31/2013	Increases	Decreases	Balance 12/31/2014
Tower	\$ 378,600	-	-	378,600
Fence	8,565	-	-	8,565
Building	69,369	-	-	69,369
Transportation Equipment	23,271	27,590	(23,271)	27,590
Field Equipment	34,561	8,565	-	43,126
Office Equipment	13,045	-	-	13,045
Office Furniture	10,192	-	-	10,192
Distribution System	2,663,445	18,691	-	2,682,136
Total Capital Assets	3,201,048	54,846	(23,271)	3,232,623
Accumulated Depreciation	(1,115,219)	(91,879)	23,271	(1,183,827)
Capital Assets, Net of Accumulated Depreciation	\$ 2,085,829	(37,033)	-	2,048,796

	Balance 12/31/2012	Increases	Decreases	Balance 12/31/2013
Tower	\$ 271,000	107,600	-	378,600
Fence	8,564	1	-	8,565
Building	69,369	-	-	69,369
Transportation Equipment	23,271	-	-	23,271
Field Equipment	33,811	750	-	34,561
Office Equipment	12,197	848	-	13,045
Office Furniture	10,192	-	-	10,192
Distribution System	2,642,964	20,558	(77)	2,663,445
Total Capital Assets	3,071,368	129,757	(77)	3,201,048
Accumulated Depreciation	(1,033,438)	(81,781)	-	(1,115,219)
Capital Assets, Net of Accumulated Depreciation	\$ 2,037,930	47,976	(77)	2,085,829

NOTE 3 - COMPENSATED ABSENCES

The District operator is allocated paid time off for vacation and/or holidays. Payment in lieu of vacation and carry over of vacation is not permitted. Vacation is not payable upon termination and unused vacation does not carry over to the next year. Employees receive no sick leave. As a result, no accrued compensated absences existed at December 31, 2014 or 2013.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2014 and 2013

NOTE 4 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, crime, workers compensation and employee dishonesty. Settled claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from prior years.

NOTE 5 - MAJOR SUPPLIER

All of the District's water is purchased from the City of Lyons, Kansas. The contract expires June 15, 2032, and is renewable at that time.

NOTE 6 - LITIGATION

The District is party to various legal proceedings which normally occur in governmental operations. These proceedings are not likely to have a material financial impact on the affected fund of the District.

NOTE 7 - ENVIRONMENTAL ISSUES

The District's operation of the water distribution services poses a potential risk for environmental remediation liabilities. The operator of the facility has indicated that the District has not violated environmental laws.

NOTE 8 - DEBT RESTRICTIONS AND COVENANTS

Net Operating Revenue Requirements

Rice County Rural Water District #1 entered into an agreement with the Kansas Rural Water Finance Authority to issue bonds in the amount of \$1,060,000 for the purpose of refinancing certain debt obligations. The agreement requires that the District provide for the repayment of this bond by producing revenues sufficient to pay the cost of the operation and maintenance of the system; pay the principal of and interest on the bonds and all parity obligations as and when the same become due; enable the District to have in each fiscal year net revenues in an amount that will be not less than 125% of the debt service requirements required to be paid by the District in such fiscal year on all bonds and parity obligations at the time outstanding; and provide reasonable and adequate reserves for the payment of the bonds and their interest thereon and for the protection and benefit of the system of the District. The District is not in compliance with this requirement as of December 31, 2014 and 2013 as the debt service ratio was as follows:

	2014	2013
Revenues	\$ 355,185	\$ 334,020
Expenses	\$ (261,830)	\$ (235,774)
Net Revenues	\$ 93,355	\$ 98,245
Maximum Amount of Principal and Interest	\$ 78,358	\$ 78,770
	125 %	125 %
Net Revenues Required	97,948	98,463
Deficit	\$ (4,593)	\$ (218)
Debt Ratio (Net Revenues/Net Revenues Required)	0.95	1.00

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2014 and 2013

NOTE 9 - LONG-TERM LIABILITIES

On June 1, 2012, the District issued \$1,060,000 in Water Finance Authority Revenue Bonds - Series C, 2012 for the purpose of providing funds for refunding the \$1,017,754 Farmers Home Administration note.

Long-term debt activity for the year ended December 31, 2014 was as follows:

	<u>Outstanding</u> <u>December 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>December 31, 2014</u>	<u>Current</u> <u>Portion</u>	<u>Interest</u> <u>Paid</u>
Business-Type Activities:						
Revenue Bond						
Series C, 2012	\$ 965,000	-	55,000	910,000	55,000	23,360

Long-term debt activity for the year ended December 31, 2013 was as follows:

	<u>Outstanding</u> <u>December 31, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>December 31, 2013</u>	<u>Current</u> <u>Portion</u>	<u>Interest</u> <u>Paid</u>
Business-Type Activities:						
Revenue Bond						
Series C, 2012	\$ 1,020,000	-	55,000	965,000	55,000	23,770

Scheduled maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

<u>Years Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 55,000	22,808	77,808
2016	55,000	22,148	77,148
2017	60,000	21,378	81,378
2018	60,000	20,418	80,418
2019	60,000	19,338	79,338
2020-2024	325,000	76,026	401,026
2025-2028	295,000	26,075	321,075
Total	\$ 910,000	208,191	1,118,191

NOTE 10 - CAPITAL CONTRIBUTIONS

The District receives applications for new service from individuals or businesses in Rice County. During the monthly board meetings these applications are reviewed and voted on. If an application is approved, the individual or business pays a \$3,000 membership fee and pays for construction costs related to the installation of the new service. Total capital contributions were \$51,302 and \$23,635 at December 31, 2014 and 2013, respectively.

NOTE 11 - RECLASSIFICATIONS

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net assets.

NOTE 12 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 12, 2015, which is the date the financial statements were available to be issued.